



CH 12/15

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December 11, 1997

Cynthia L. Johnson
Director
Cash Management Policy and Planning Division
Financial Management Service
U.S. Department of the Treasury, Room 420
401 14th Street, S.W.
Washington, DC 20227

Dear Ms. Johnson:

I am writing to comment, on behalf of our bank, on the proposed rules relating to the management of federal agency disbursements (Section 208).

BACKGROUND

CORUS BANK is a Chicago-based bank with assets of approximately \$2.2 billion. The bank operates a 12-branch network in Chicago and enjoys approximately a 1% deposit market share in the Chicago area.

The bank serves a variety of niche customers, including a number of currency exchange stores, often referred to as "Check Cashers." Among the services provided to these Check Cashers are the following:

- Handling the deposits
- Providing currency for daily check cashing operations
- Clearing store money orders (i.e., being the drawee bank on money orders sold at the check cashing stores)
- Financing for daily operations, expansion, etc.

We have been involved in much of the activity surrounding the interim and proposed rules on the subject, including several meetings and discussions with Treasury Department personnel.

CURRENT HANDLING OF PAYMENTS

At the present time, our bank is involved in handling federal payments in one of a number of ways:

- A federal payment recipient maintains a bank account at our bank and **deposits** the check by utilizing:
 - one of our branch locations
 - one of our ATMs
 - one of the foreign ATMs in our ATM network
 - mail
- A federal payment recipient maintains a bank account with us, but **cashes** a check at:
 - one of our branch locations
 - one of our three “state of the art” check cashing ATMs
- A federal payment recipient maintains a bank account with us and has the federal payment directly deposited (via ACH) into his/her account
- A federal payment recipient cashes his/her check at one of the check cashing outlets who, in turn, banks with us. (In this case, we have no customer relationship with the federal payment recipient.)
- Customers who are enrolled in our “SecureCheck” program, as described below

SecureCheck PROGRAM

The bank offers a direct deposit program in conjunction with the Community Currency Exchange Association of Illinois, Inc. and a number of individual check cashers. This program is in place today and is presently serving, at our bank, more than 30,000 federal payment recipients. The program works as follows:

- The federal payment recipient visits the check cashing store that he/she regularly visits and asks to have his/her payment handled electronically.
- The check casher’s representative prepares an application for SecureCheck and an SF-1199 form with the recipient, giving a copy of the application to the recipient.
- The check casher forwards copies of the SecureCheck application and the recipient’s identification to **CORUS BANK**.
- The bank reviews the paperwork, opens a checking account in the name of the recipient and completes the preparation of the SF-1199 form.
- The bank enters transactions which automatically transfer the amount of the recipient’s benefit (less the bank’s nominal service fee) to a special trust account held by the recipient’s check casher.
- The bank returns copies of the SecureCheck application to the check casher, who presents a copy to the recipient on their next visit.
- The bank forwards the completed SF-1199 form to the Social Security Administration for processing.

- Upon receipt of the ACH credit representing the recipient's benefit payment, the bank's computer system posts the credit to the recipient's account and transfers the amount of the credit, less the service fee, to the designated check casher's trust account.
- The bank communicates with the check casher so that the check casher is in receipt of a file. This file contains the data necessary for the check casher to print a check, drawn on the trust account, payable to the recipient. Attached to the check is a statement of account, which fulfills Regulation E reporting requirements.
- The recipient may then either cash this check at the check casher's location or leave with the check to negotiate it elsewhere.

COMMENT ON THE PROPOSED POLICY

The proposed policy outlines some parameters which could very well provide for a suitable program. Our main concern would be any adjustment to, or interpretation of, the proposed rules that would preclude our SecureCheck program from being a viable option to the consumer. This would truly represent "backsliding." Since SecureCheck was launched early in 1997, we have worked very closely with the Social Security Administration, for example, and that agency certainly recognizes the benefits of SecureCheck.

It is our belief that there are, indeed, a number of ways to achieve the many objectives of the program. The SecureCheck program is one of these alternatives. Among other features, the program provides a means for:

- Eliminating the production and mailing of government checks
- The introduction (albeit on a limited basis) of the "non-banked" to a financial institution, since each recipient opens a bank account.
- Allowing consumer choice in their federal payment receipt. A recipient could open a typical bank account with a bank such as ours (or, if the proposed rule results in a new type of account, the recipient could open one of those type of accounts), or the consumer can participate in a SecureCheck type of arrangement.
- Provide for a minimum of change to the recipient, many of whom do their "banking" at an institution such as a check casher. The SecureCheck program allows - if the recipient so chooses - for the recipient to continue to "bank" with the check casher.

COMMENTS ON THE SUPPLEMENTARY INFORMATION

Overall, we applaud the Treasury for taking an appropriate position with regard to the proposed regulations, particularly on the issues associated with cost and consumer protection. On page 48723, the Treasury's commentary makes it clear that the Department anticipates a continuing role for check cashers and other non-financial institutions in the execution of the EFT mandate. This position is consistent with free enterprise and protects the consumer's right of choice in deciding where to conduct his/her financial business. Moreover, the Treasury is on solid ground, we believe, in its approach that would limit any additional regulation of fees and any new consumer protections just to the special accounts that Treasury would arrange for people who cannot obtain accounts on their own.

There are several citations in the supplemental information which warrant further comment.

First, one of the comments on the interim rule was:

“Concern was expressed about non-financial institutions that charge what was described as excessively high fees for check cashing and other financial services. Treasury was urged to limit the fees charged by authorized payment agents for recipients to access their funds and to regulate the contractual arrangements between authorized payment agents and recipients.”

The comment implies that check cashers charge excessive fees and that Treasury should limit these fees. In fact, in the State of Illinois and many other states, for instance, check cashing fees are already regulated. Thus, additional regulation should not be warranted. Further, to imply that the fees are excessive, when the fees are set by a regulatory agency, is difficult to accept.

Further, the comment discussed the need to regulate contractual arrangements; we are concerned about any additional regulation in this area.

Second, the following was also excerpted from the Supplementary Information:

“A group representing check cashers urged Treasury to define “authorized payment agent” in a manner that would allow check cashers to be designated as authorized payment agents. The group commented that check cashers were in a unique position to deliver payments to Federal recipients because of their locations in areas where there are few bank branches and because of the customer service they provide.”

We are supportive of this concept but understand the practical difficulties of allowing a check casher to be an authorized payment agent when they’re not members of the Automated Clearing House (ACH). Again, our SecureCheck program provides the obvious solution here: the federal payment can be electronically transmitted through the ACH network, utilizing our bank, and we can then partner with a check casher to deliver the payment to the recipient.

Third, a comment is made that there is

“Congressional interest in minimizing the hardship associated with conversion from check to EFT for some recipients”.

As previously stated, a program like SecureCheck *minimizes* the hardship associated with the new EFT mandate.

Fourth, a comment is made noting that:

“Several commenters suggested that Treasury require financial institutions to provide a basic account at a reasonable price to individuals without accounts. Treasury does not believe that financial institutions should be required to provide these types of account services as a result of the Act.”

Later, this quote appears:

“Treasury has been urged to interpret the Act as requiring regulation of the fees charged by financial institutions and the imposition of certain consumer protections on the services they offer. Consumer organizations urged Treasury to limit the fees that payment agents may charge for their services, and suggested that reasonable costs for recipients without bank accounts should range from no cost to low cost.”

We believe strongly that Treasury should not regulate account pricing, particularly in an environment where regulation already is in place. Also, in keeping with the consumer organizations’ request that “reasonable costs for recipients without bank accounts should range from no cost to low cost,” **we respectfully submit that the SecureCheck program is an existing solution that Treasury may wish to promote as the account described in Section 208.5 (“ETA”).**

SecureCheck customers in the State of Illinois presently pay about \$1 per payment; fees are slightly higher to SecureCheck customers beyond Illinois. In other words, Illinois customers who receive one payment per month can comply with the EFT mandate for about \$12 per year, surely a low-cost fee structure by anyone’s measure. If the customer chooses to cash his or her check at the check casher, customary fees apply; however, the customer is under no obligation to cash the check.

Presently, there are limitations on usage to SecureCheck customers. These limitations were designed to hold costs down while still providing the basic level of service that the customer wants. If Treasury is interested in directing “unbanked” customers to the SecureCheck program, and believes that certain usage enhancements would be of interest, **CORUS BANK** would be pleased to consider alternatives. We remind the Treasury that one of the main reasons **CORUS BANK** developed the SecureCheck program in cooperation with Illinois’ check cashers and LaSalle National Bank is that we recognize the unique role that check cashers play as a “lifeline” to this nation’s “unbanked” population. We know of no better delivery channel than Illinois’ 700 (and others elsewhere in the country) check-cashing outlets for providing an EFT mandated account to the “unbanked.”

Fifth, another area of concern to us relates to the following remark:

“Treasury has been urged to adopt restrictions for the account that it furnishes that would preclude arrangements between the financial institution at which the account is maintained and third parties, such as check cashers and money transmitters, under which recipients might be provided with additional means of accessing the account. Those favoring such restrictions argue that recipients should be protected against excessive charges that might be imposed for such services. These arguments raise important concerns, particularly with respect to low-income recipients who have in the past paid high fees to cash government checks.”

There are about 4,000 check-cashing establishments throughout the United States. They are conveniently located to many of this nation’s “unbanked” people, who have willingly expressed a preference to do business with check cashers. In some cases, these people have no affordable alternative about where to conduct their financial business.

The check casher: provides many useful services at competitive prices; requires no minimum balance relationship; does not insist that the customer accept a “bundle” of services for which there may be no real need; and offers friendly, reliable service. It should not be a surprise to anyone that check cashers have built a loyal customer following based on such benefits. Millions of people nationwide feel very comfortable doing business with check cashers. Millions of people nationwide prefer to pay their bills with money orders instead of checks or credit cards. By meeting their customers’ needs for decades, check cashers have firmly established their place in the financial landscape of the United States. It seems outrageous for various advocacy groups to deny these facts.

We strongly object to the concept that a program such as SecureCheck should be precluded. Much discussion has been raised on this topic and topics related to the “non-banked” population in this country. We believe that this regulation cannot mandate how banking is to be conducted for all payment recipients. To deny an opportunity for a recipient to continue to “bank” with a check casher--with which the recipient *has consciously chosen to do business*--is an unfair restraint.

We appreciate the opportunity to provide these comments and I am personally available to discuss any or all of them in more depth as you require.

Very truly yours,

A handwritten signature in black ink, appearing to read "D H Johnson III". The signature is fluid and cursive, with the last name "Johnson" being more prominent.

David H. Johnson, III
Executive Vice President
and Chief Operating Officer